national farmers union

In Union is Strength

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National Farmers Union

submission

to the

Standing Committee on
Finance and Economic Affairs

on the subject of

Tax Reform

on, Sask. August 11, 1987

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The National Farmers Union (NFU) is fundamentally opposed to the introduction of accrual accounting to all farmers. The proposed system is not on a modified cash basis as claimed, but in fact has all the features of accrual accounting with a reserve relating to the lower of gross income and a modified inventory.

This proposal is objected to for a number of reasons:

1. Cost: We anticipate that the preparation of such accounts will increase the cost of tax preparation for most farmers by at least 40%. Several accounting firms have indicated an increase considerably in excess of this. The farmer will be obliged to spend a considerable amount of time to prepare the necessary information. We believe that most farmers do not have the necessary auditing skills to prepare such information.

2. Valuation of Inventory: The government is expecting the farmer to value his/her stock on hand. Due to government policy this is impossible. No farmer knows the value of his production until he receives his cheque from the purchases. In many cases, inventory is unavailable for sale. It is shut in due to lack of markets, government policy, Acts of God, transport difficulties and many other problems. At other times, many products have a market cost well below the cost of production. In particular, without good standards the opportunity to manipulate inventory exists; a needless confusion not present in the current system.

3. Capital Gains: The proposals regarding changes in capital gains are a complete reversal of the government's provision

to help the retiring farmers. In fact, the federal portion of a retiring farmer's tax will increase from 17% to 22% at the maximum rate - an increase of 29.4%. The taxable lifetime exemption is reduced from $250,000 to $125,000. The government giveth and the government taketh away. How soon!

4. Block Averaging: The White Paper claims that the new regime will eliminate the need for block averaging. We disagree. Farming is fundamentally a cyclical operation. Large variations in production, price and ability to deliver to market exists. It has no equivalent in other businesses. Taxation levels for an average farm can fluctuate considerably in excess of the first two proposed levels of $55,000. At this moment due to depressed world grain prices, this is not as evident as it was only four years ago.

5. Tax Credits: Credits under the new system should be refundable to farmers with taxable income of under $10,000. Alternatively, credits should be accumulated and carried forward up to five years. This will assist those farmers who suffer large changes in income to recover unused credits from previous years. Many farmers are forced to borrow to live in depressed periods and to repay must generate excess income.

6. Start-Up Farmers: Beginning farmers need more than four years to establish their operations. Many of today's farms are only profitable due to the sacrifice of previous generations. The NFU believes a more realistic time would be ten years.

7. Part-Time Farmers: More farmers starting out are part-time farmers. Due to current market prices, only a very wealthy operator can start with no debt. Caution and a responsible attitude requires that a second income is needed to ensure the survival of the farm unit through its start-up years. The gross income test is a realistic one except when we consider the fluctuation in market value. A farmer selling $35,000 of wheat today could have got $50,000+ three years ago. We believe a fairer standard could be established by consultation with the farm organizations. A better basis would be crop acreage, number of livestock units and the gross income.

8. <u>Capital Costs:</u> The proposal to deny the deduction of capital cost allowance in the year of purchase is a retrograde step. The half year rule already identifies the reduced costs to the producer. Many farmers purchase equipment in the off season. They are purchased at sales as well as from dealers. Most equipment suffers its largest decline in value in the first year. The half year rule denies the cost in the year of purchase and capital cost is taken at the full rate only in subsequent years. This proposal denies the reality of the cost situation and the current system should be retained.

The NFU has other objections; noteably, the inequity of the minimum tax where retiring farmers with large unused investment tax credits are unable to offset taxes due to the minimum tax requirements. This and the previously noted objections will form a major part of a fuller submission when the committee meets.

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All of Which is Respectfully
Submitted by:

NATIONAL FARMERS UNION

SALES TAX

Because the government has not made concrete proposals regarding the introduction of a general sales tax, value added tax or multi-stage sales tax, our response will be limited.

No tax should be levied on food. From the farmer to the retail point of sale, no tax should be applied. We believe such a tax would make the cost of food excessively high and will have many problems in imposing at the farm gate level. If it were imposed, Canada would be one of the few Western Nations to do so. To date the NFU has been unable to identify any country that does impose such a tax on basic foodstuffs.

Real Estate. We believe farm land should be exempt from tax except where sold for development. In particular, we have concerns where farm land is transferred to a minor, family trust or some family member not registered at the time of transfer.

Rental of farm land. This should be exempt.

Farmer-to-farmer sales should be exempt.

We support the registration of farmers for the refund of imput taxes relating to taxable production.

We believe that items should be exempt or at one flat rate. This will avoid confusion and enable purchasers to determine the refundable tax. In this way, farmers can make informed decisions about their input costs.

We support the proposed Plan C option with modified credits, some exemptions and a higher rate. This could enable some small operators to opt out of the system. In areas where small amounts of custom work, building repair and other small occasional operators supply services to farmers.

We request assurance that membership fees to organizations such as the NFU will not be taxable.

That non-profit organizations working for the general benefit of their members be able to recover all or part of their imput taxes. This would be in addition to the full recovery of those taxes on imput costs received to produce taxable supplies to members. In particular, the NFU offers non-profit financial services to its members which will be taxable according to our reading of the proposals.

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